Clark County, Washington

Investment Management Review
First Quarter 2000

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The red-hot U.S. economy showed no signs of slowing through the first quarter of 2000. The Federal Reserve has continued its efforts to slow the economy by increasing short-term rates, with the Fed Funds target rate currently set at 6.0%. Most economic data suggests that their actions have had little impact on slowing the pace of expansion. Over the same period, subtle signs have suggested that inflation is beginning to creep into the economy.

In the first quarter, the County's portfolio shortened, resulting in an average maturity of approximately 6 months. The total pool portfolio balance decreased quarter over quarter by $24.9 million par. The March 31, 2000 par value was equal to $361.8 million. The par value of the portfolio a year ago was $324.8 million. This pool portfolio remained well diversified by sector and maintained a high overall credit quality, liquidity and exposure to call/reinvestment risk. A summary of first quarter highlights and PFM's recommendations follow.

- ***Asset Diversification*** **–** The asset allocation of the portfolio changed slightly over the quarter. The County reduced its holdings of Bankers Acceptances and Certificates of Deposit to 0.0% by March 31, 2000. In addition, the commercial paper and Federal Agency discount note allocations decreased slightly. These decreases were offset by increases in the sector allocation totals of Federal Agencies, Treasuries and money market funds.

- ***Maturity Distribution*** **–** The County's pool portfolio continued to shortened further over the quarter. By March 31, the average maturity was 197 days, or approximately 6.5 months. We would recommend that the County reinvest additional cash out to the 18 to 24 month maturity range in order to capture the added yield benefit that currently existing in that very steep area of the yield curve. Our suggested maturity target for the County's portfolio continues to be 9-10 months.

- ***Credit Quality*** – The County maintained the portfolio's low exposure to credit risk. As of March 31, 75% of the portfolio was invested in securities rated "AAA" (highest long-term rating) or "A-1/P-1" (highest short-term rating), and the remaining assets invested in either the Washington LGIP or U.S. Bank Municipal Investment Account.

- ***Liquidity*** **–** With no certificates of deposit in the account as of March 31, the portfolio was highly liquid. As of the quarter end, 91% of the portfolio assets were categorized in one of PFM's top three liquidity rating categories (1, 2, and 3). The overall weighted liquidity factor was 2.59, in the lower spectrum of the PFM recommended range of 2 to 4.

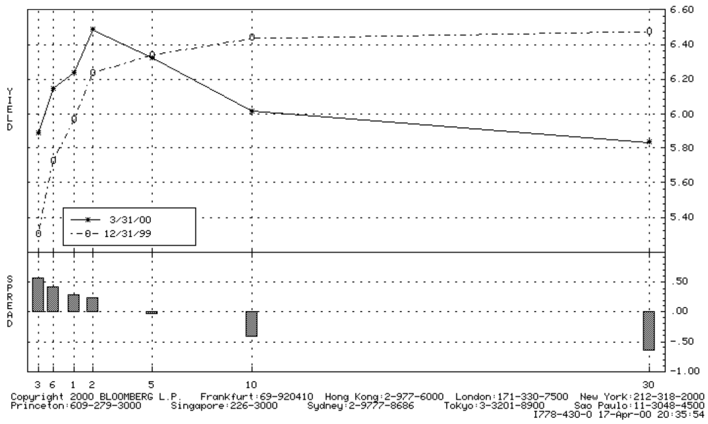
- ***Market Risk*** **–** As the assets in the portfolio shortened in maturity, the correlated market risk declined. As of March 31, 74% of the portfolio was invested in securities with maturities in under 1 year, categorizing those assets as bearing low market risk. The remaining 26% of the assets were in the low/average category.

- ***Callable Exposure*** – The portfolio's exposure to call risk during the first quarter was virtually unchanged. As of March 31, 20.1% of the portfolio was invested in callable Federal Agencies, in line with PFM's recommended limit.

First Quarter 2000 Economic Summary

Volatile bond markets whipsawed investors in the first quarter, as a very strong economy and rising inflation acted to push interest rates higher, until these forces were overwhelmed by technical factors that drove long term bond rates lower. The Federal Reserve raised the Fed funds target by 25 basis points in March, pushing short-term rates higher. The overall result by quarter-end was an inverted Treasury yield curve, with its peak in the two-year area. This was in sharp contrast to the yield curve at the beginning of the quarter that was positively sloped, with long term rates higher than those for short and intermediate term investments.

U.S. Treasury Yield Curve
12/31/99 vs. 3/31/00

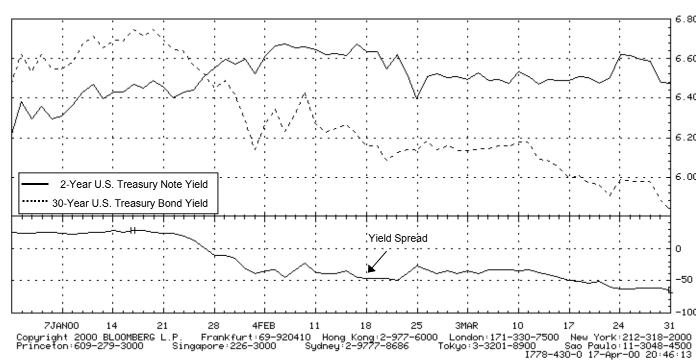


Fixed income investment portfolios generally performed modestly. They did better than they had in the last four quarters when the sharp rise in interest rates depressed returns to their lowest levels since 1994, but still tended to under-perform very short term money market type investments.

The chart at the left illustrates the significant change in Treasury yields over the quarter. Over the quarter, short-term Treasury yields rose 25 to 50 basis points while yields of Treasuries in the 10 to 30 year maturity range decreased by 40 to 65 basis points. Consequently, as of March 31 two year Treasury Notes yielded 65 basis points more than 30-year Treasury Bonds. Such an inverted yield curve normally is seen as a signal of an economic slowdown, but in this instance no such evidence is yet apparent. Rather, the immediate cause appears to be the ballooning Federal budget surplus and an aggressive program by the U.S. Treasury to shrink the amount of outstanding Treasury debt. Investors who desire Treasuries because of their security and liquidity, or who must own them for legal reasons, bid up their prices, with the result that yields fell on notes and bonds maturing in five years or more.

The technical factors that affected the U.S. Treasury market spilled over to the Federal Agency and corporate markets as well, although their effects were less pronounced. For example, over the quarter, short and intermediate-term Federal Agency yields rose 20-30 basis points, while long term rates fell 10-20 basis points. The Federal Agency yield curve remained positively sloped from two to ten years, and beyond 10 years had only a small negative slope.

2-Year Treasury & 30-Year Treasury Spread
12/31/99 – 3/31/00



The powerful rally in the intermediate and long maturities of the Treasury market resulted in widening spreads between Treasuries and Agencies. By quarter end, two year Agencies yielded about 40 basis points more than Treasuries. At the five-year mark the spread was about 70 basis points, with five year Agencies yielding about 7.15%. One result of this is that Treasuries out-performed Agencies on a total return basis in some segments of the market, as their price appreciation made up for the higher income produced by Agencies. On the other hand, Agencies offered very attractive yields—by quarter end these low-risk securities offered yields in excess of 7.00% in maturities beyond three years.

The U.S. Treasury debt reduction plan—which calls for a significant reduction in the issuance of new Treasury bonds and notes, and a buy-back of about $30 billion of Treasury securities this year alone—is a sign of the remarkable turn-around in the Federal budget situation in the past several years. If the economy continues to expand at a rapid pace, the buy-back plans could accelerate, and there could be further reductions in new issuance in the next Federal fiscal year.

Through the quarter, there was ample evidence that the economy continues to perform spectacularly. Indeed, February marked the 108th continuous quarter of economic expansion, the longest in peacetime history. On the other hand, the tight job market and rising energy prices led to some acceleration in the pace of inflation. Key indicators during the quarter have included:

Gross Domestic Product: The Gross Domestic Product (GDP), the broadest measure of goods and services produced, increased at an annual pace of 7.3% for the fourth quarter, the highest since the first quarter of 1984. For 1999, the GDP grew at 4.6%, above the Fed target of 2.0% - 2.5%.

Commodity Prices: Crude oil prices rose to their highest levels since 1990. Rising oil prices can increase costs across many industries, such as airlines and trucking and can lead to higher costs to consumers, as producers try to maintain their profit margins by passing the extra costs to the price of the final products. This scenario adds to the inflationary pressures in the economy. Toward the end of March, some of the crude oil prices began to ease in reaction to the OPEC (Organization of Petroleum Exporting Countries) decision to increase production output levels.

Manufacturing and Sales: Manufacturing activity remained strong as suggested by various economic data. The National Association of Purchasing Managers (NAPM) index was reported at a 56.9 for February and 55.8 for March. Any index level over 50 indicates that manufacturing activity is expanding. Demand for manufactured goods remains strong. For example, retail sales for February grew by 1.8% according to the Commerce Department. Auto sales remain high, with major car manufacturers posting record sales for the month of February. In fact, General Motors Corp. reported the best sales levels for the month of February in 12 years. The housing sector continued to expand in the quarter, even amidst rising mortgage rates.

Employment: Unemployment remained at 30-year lows. The unemployment rate remained at 4.1% through March. One of the few economic reports released during the quarter to suggest some slowdown in economic growth was the February report of only 7,000 new jobs created in that month. The same figure for March showed a creation of 416,000 new jobs, which somewhat diluted the significance of the February numbers.

Prices: Both the Producer Price Index (PPI) and Consumer Price Index (CPI) have begun to trend upwards, suggesting that inflation is creeping into the economy. The PPI Index for March, released in mid-April, showed an increase of 1.0% in producer prices, duplicating the rise in February. The February and March increases were the largest monthly increases in nearly 10 years. The CPI Index for the same month saw in increase of 0.7% in the prices of consumer goods. On the other hand, those same reports showed that when the volatile food and energy prices were subtracted from these calculation, the Core PPI rose only by 0.1% but the Core CPI surprised the market by rising 0.4%.

Fed Fund Target Rate
March 31, 1999 through March 31, 2000

In addition to the various economic statistics, the recent volatility in the stock market may potentially have an impact on the fixed income sector. Dramatic swings in stock prices may lead some investors to seek the safe haven of the U.S. Treasury market, driving Treasury prices higher and increasing spreads between the Treasury and other fixed income sectors. Another possibility is that investors may seek the stability of fixed income securities, but concentrate their investments in the non-Treasury sectors, which are generally higher yielding than comparable Treasuries.

The Federal Reserve has continued its tightening policy, which it had begun last summer. The Federal Open Market Committee has raised short-term rates by 0.25% five times since June 1999, elevating the target Fed Funds rate to 6.00% as of their March 21 meeting. These increases are targeted at slowing down the domestic economy and curbing inflationary tendencies. Many analysts anticipate that the Fed will continue to raise the Fed Funds rate into the summer, unless market indicators begin to demonstrate the beginning of an economic cooling.

So far, there has been little evidence of any deceleration. Until there is, it is likely the Fed will keep pressing on the brake—by raising the Fed Funds rate—and it is unlikely interest rates will fall much further from current levels. Indeed there is perhaps more chance of a renewed upward trend in interest rates if the pace of inflation quickens.

Current Market Overview

Much of the market focus throughout April was on the stock market, as investors were taken on a wild roller coaster ride of price ups and downs across most sectors. At the same time, concern over inflation brought forth by the relentless economic strength has been looming in the background. Despite a series of Fed rate increases, which have raised the Fed Funds Target rate to 6.0%, most economic data indicates the domestic economy remains robust. An assessment of the economy is provided below:

- ***Employment*** – Unemployment remained at 30-year lows through the first quarter. Concern that the low unemployment levels will lead to higher wages as employers pay more to seek out and retain their workers was heightened by a Labor Department report on the *U.S. Employment Cost Index*. This report showed that labor costs increased by 1.4% during the first quarter, the biggest increase since the third quarter of 1989. Other statistics gathered by the Labor Department show that the total new unemployment claims have averaged lower so far in 2000 compared to the averages for 1999.

- ***Manufacturing*** – Manufacturing activity remains robust. *Durable Goods Orders* for March rose at a pace of 2.6%, showing continued demand for products produced in U.S. factories. The number was much higher than expected and the first increase since December 1999.

- ***Home Sales*** – *Housing Starts* again exceeded expectations, rising 1.5% in January, with 1.78 million new home construction starts in the month. *Construction Spending* for February was reported to have risen 1.5%, while it was forecast to show a moderate –0.1% decline. With rising interest rates pushing up mortgage rates, home construction is expected to cool off. The fact that construction remains strong may be explained by the theory that consumers expect future mortgage rates to be even higher than current rates, prompting them to make their home purchases at the current mortgage levels.

Given all these strong economic statistics, consumer confidence remains strong and consumer spending remains high. The Commerce Department reported that *Consumer Spending* rose by 1.4% in February and 0.5% in March while *Personal Savings* rose by a record low of only 0.2% for February and 0.4% for March. And so despite the Fed's efforts to slow-down the rampant economic pace, economic statistics show that the economy is still booming, and growing concerns about inflation persist.

Intermediate-Term Rates

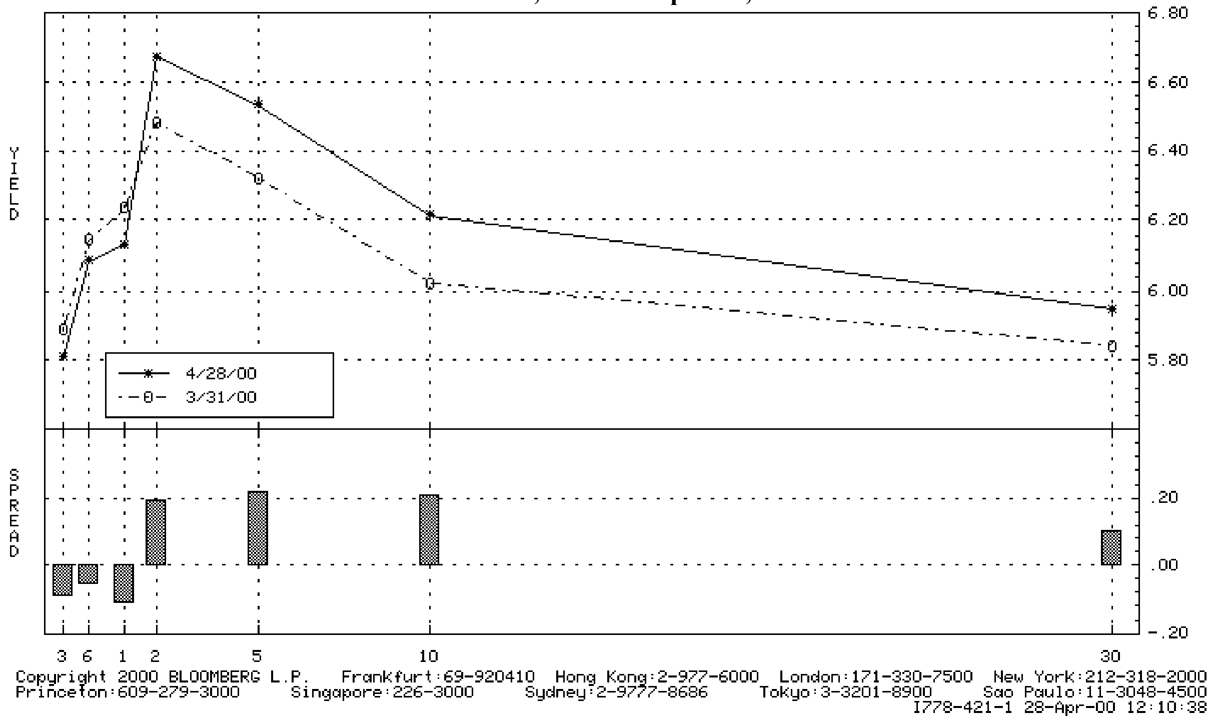
After climbing higher in January and early February, rates have begun to level off slightly. Increased volatility in the stock market in recent weeks has sent some investors to seek safety in the fixed income markets, driving yields lower.

2-Year U.S. Treasury Note Yield
January 1996 – April 2000

Current Yield Curve

The U.S. Treasury yield curve remains inverted. As of mid-April, the inversion is out beyond the 2-year maturity range, with 2-year U.S. Treasuries exhibiting the highest yields. As of April 28, the 2-year Treasury Note yielded 73 basis points (0.73%) more than the 30-year Treasury Bond. Generally, the entire yield curve has shifted downwards from the end of February to mid-April, as seen in the chart. The inversion of the yield curve continues to be a result of an anticipated decrease of supply of longer-term Treasury securities due to the inception of the Treasury Department's buy-back program.

U.S. Treasury Yield Curve
March 31, 2000 vs April 28, 2000



Sector Distribution

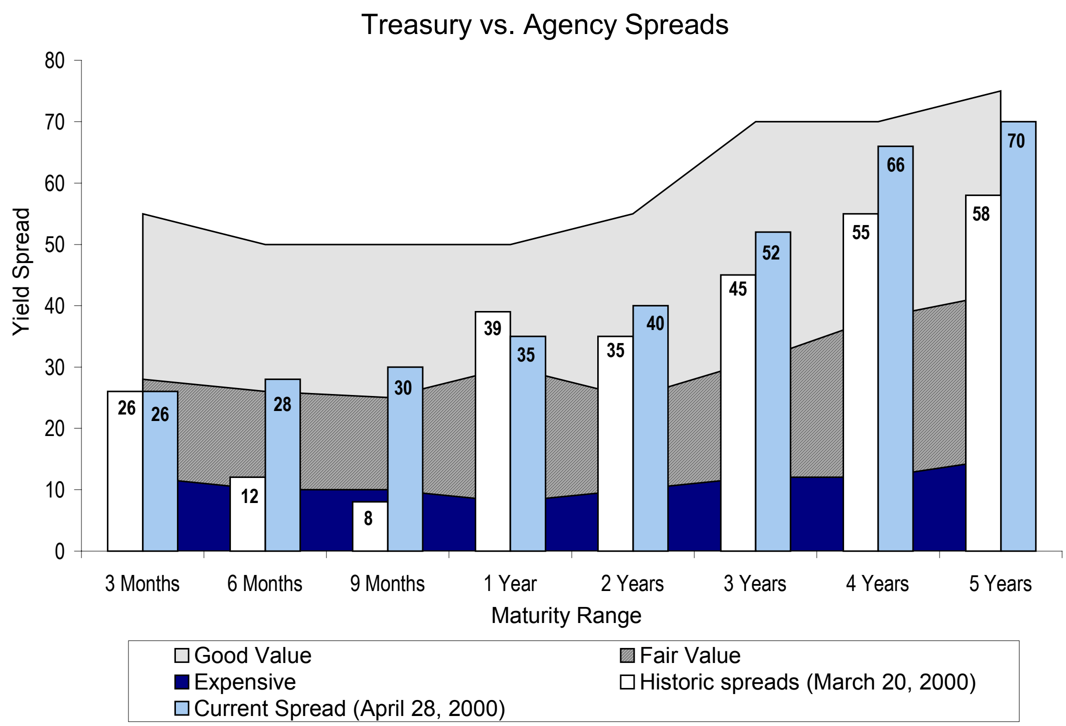
The portfolio diversification changed modestly over the quarter, as illustrated in the table below. As of March 31, 2000, the Count held no bankers acceptances or certificates of deposit in the portfolio and decreased its Federal Agency discount notes and commercial paper totals. The total portfolio allocation to Federal Agency Notes, Treasuries and money market accounts increased between the two quarter-end dates. None of these changes dramatically impacted on the overall sector composition and the portfolio remained well diversified.

Sector Composition Comparison

	3/31/1999	12/31/1999	3/31/2000	Quarter Change
Bankers Acceptances	0.0%	1.3%	0.0%	(1.3%)
Certificates of Deposit	1.5%	7.8%	0.0%	(7.8%)
Commercial Paper	9.9%	9.6%	8.6%	(1.0%)
Federal Agency Discount Notes	9.2%	5.2%	2.8%	(2.4%)
Federal Agency Notes	50.9%	49.2%	54.0%	4.8%
Treasury Securities	6.2%	9.1%	12.4%	3.4%
Passbook/Money Market Accts	22.3%	17.9%	22.2%	4.3%
Totals	**100%**	**100%**	**100%**	

*Based on par values of securities in pool portfolio.

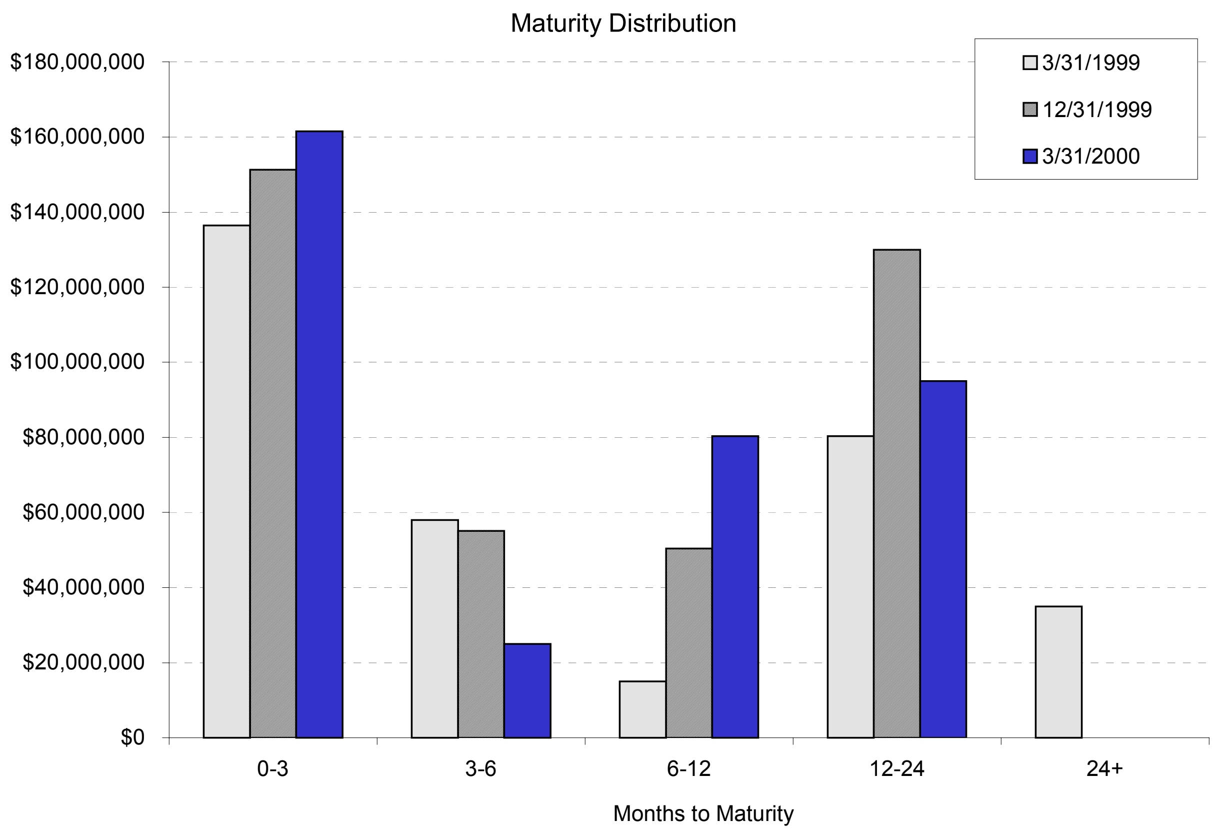
In the first quarter, spreads between Treasuries and Agencies have widened dramatically, as evident in the spreads chart. As the background shading in the spreads chart indicates, PFM currently considers the Federal Agency sector to be a good value in relation to Treasuries. Consequently, it is our suggestion that the County purchase Federal Agency securities rather the Treasury securities under the current market conditions, particularly in the 18 to 24 month maturity range with funds that the County does not need for immediate liquidity.



Maturity Distribution

The portfolio maturity distribution continued to shorten over the quarter, with a large portion of the total portfolio assets continuing to be concentrated in the 0-3 month maturity range. The portfolio average maturity decreased to 6.5 months (197 days) as of March 31, 2000 from an average maturity of 7 months (220) days as of December 31, 1999.

The chart below illustrates the maturity distribution of the County's portfolio as of the current quarter end, the prior quarter end of December 31, 1999 and the distribution a full year ago on March 31, 1999.

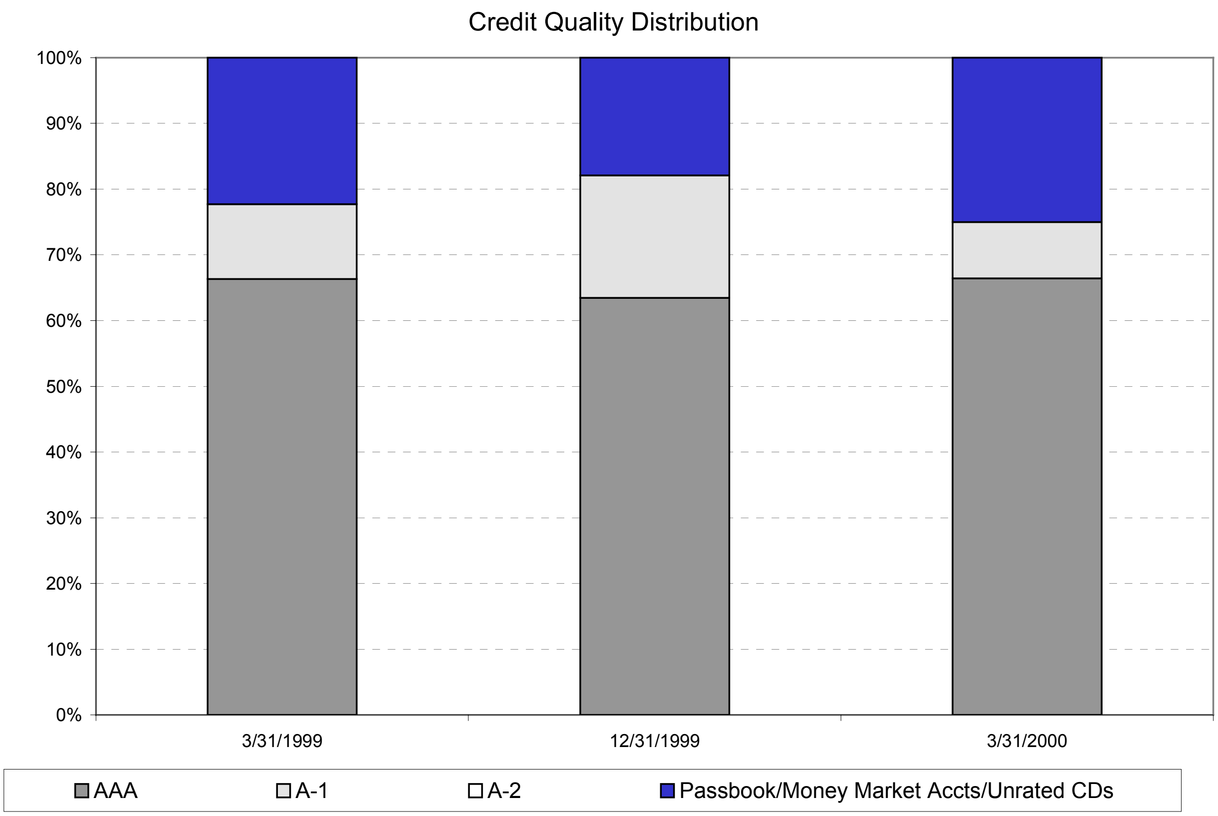


The yield curve has remained very steep in the 0-2 year maturity range, with the peak in the curve occurring in the 18 to 24 month maturity range. As of the end of April, Federal Agency notes maturing in 2-years were yielding roughly 7.05%, compared to a yield of approximately 6.51% on 5-year Federal Agency notes. Therefore, we continue to recommend targeting new investments to the 2-year area to capture the roll-down-the-curve benefit and to enhance investment returns. Further, this strategy will help to lengthen the portfolio's duration.

Credit Quality

The County's investment strategy maintained the overall high credit quality of the portfolio. As of March 31, 2000, 75% of the portfolio was invested in obligations rated "AAA" or "A-1/P-1," compared to 82% invested in "AAA" and "A-1/P-1" as of December 31, 1999. The rest of the portfolio was invested in the Washington LGIP and a Passbook account, both of which are of high credit quality.

The chart below shows the credit quality distribution of the portfolio as of March 31, 2000, compared to December 31, 1999 and March 31, 1999.

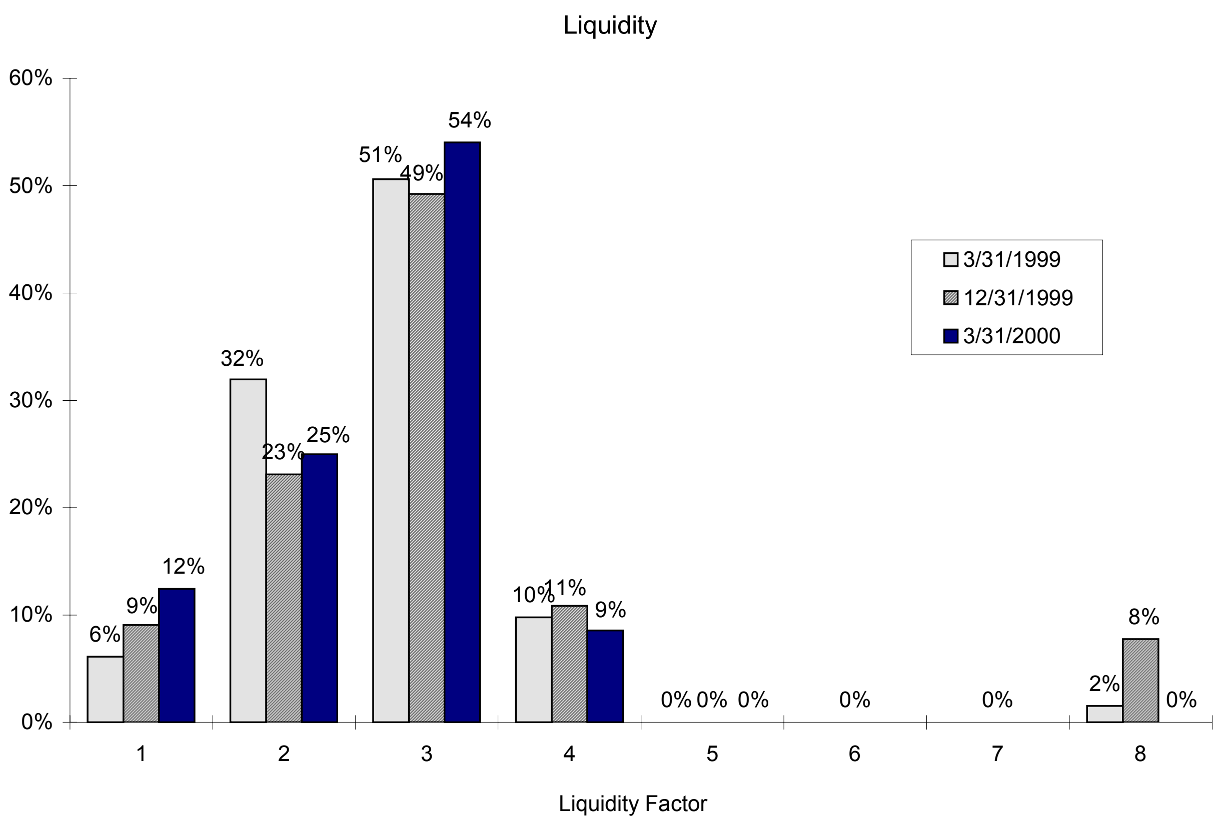


*Note change in methodology – report compares assets in the "Pool" portfolio only. The values for the prior periods have been revised to reflect this change in method.

Liquidity

The County's portfolio remains highly liquid. As of March 31, 2000, 100% of the portfolio was invested in obligations rated among one of the four highest liquidity rating categories (1, 2, 3, and 4). The average weighted liquidity of the portfolio was 2.59 as of the quarter-end. The increase in the weighted liquidity over the quarter was due to maturity of all the certificate of deposit holdings, which are generally in liquidity category 8. Overall, the portfolio remains within PFM's recommended liquidity range of 2 to 4.

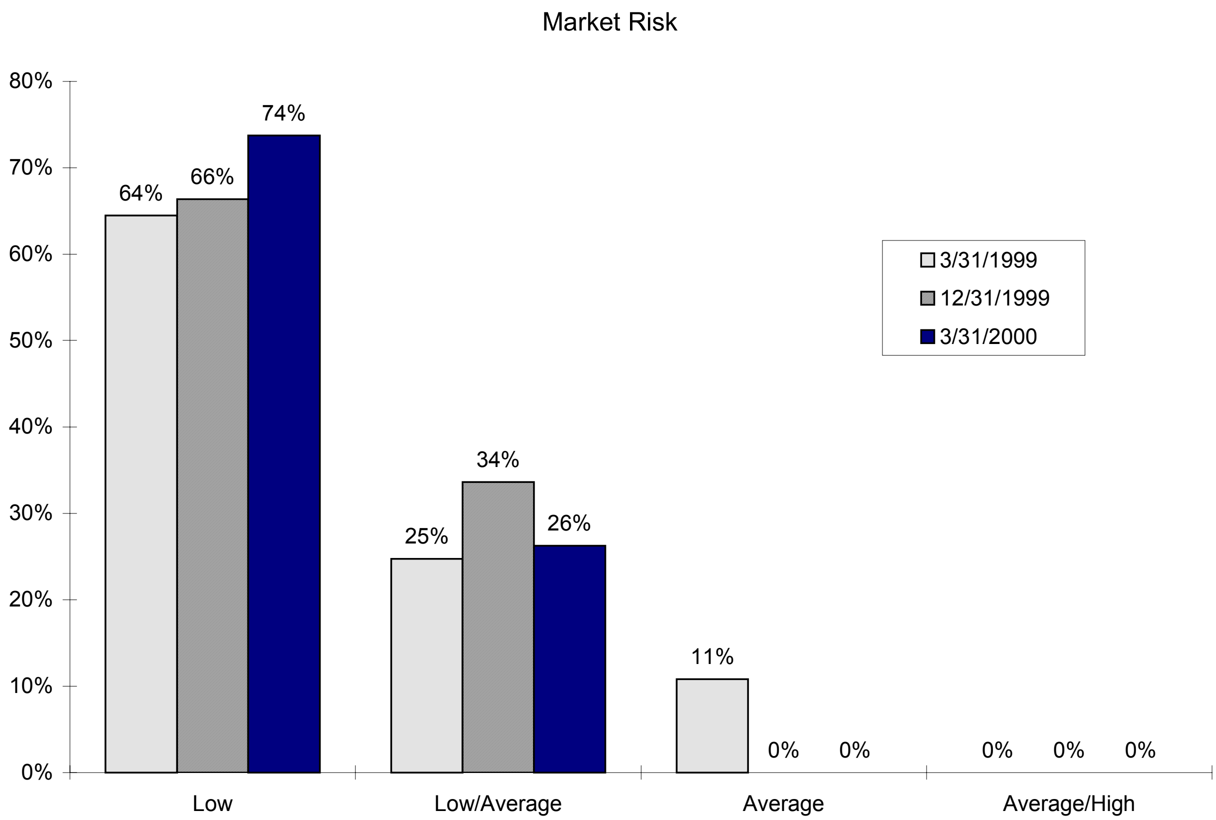
The chart below shows the liquidity distribution of the portfolio as of March 31, 2000, compared to December 31, 1999 and March 31, 1999. Category 1 represents securities that can be easily sold with little difference between the bid and offer prices, such as U.S. Treasuries. Category 8 represents securities that are generally considered illiquid such as non-negotiable certificates of deposit.



*Note change in methodology – report compares assets in the "Pool" portfolio only. The values for the prior periods have been revised to reflect this change in method.

Market Risk

The County's pool portfolio holdings continued to shorten throughout the first quarter of 2000, leading to a continued decrease in the portfolio's exposure to market risk. As of March 31, 2000, the pool portfolio continued to be invested 100% in obligations categorized as maintaining low or low/average exposure to market risk, since all the obligations matured in less than 2 years. The chart below shows the portfolio's exposure to market risk decreased both over the quarter and year-over-year. Of the total portfolio holdings on March 31, 2000, 74% of the funds were in securities with less than 366 days to maturity, which falls into the "low" market risk category.

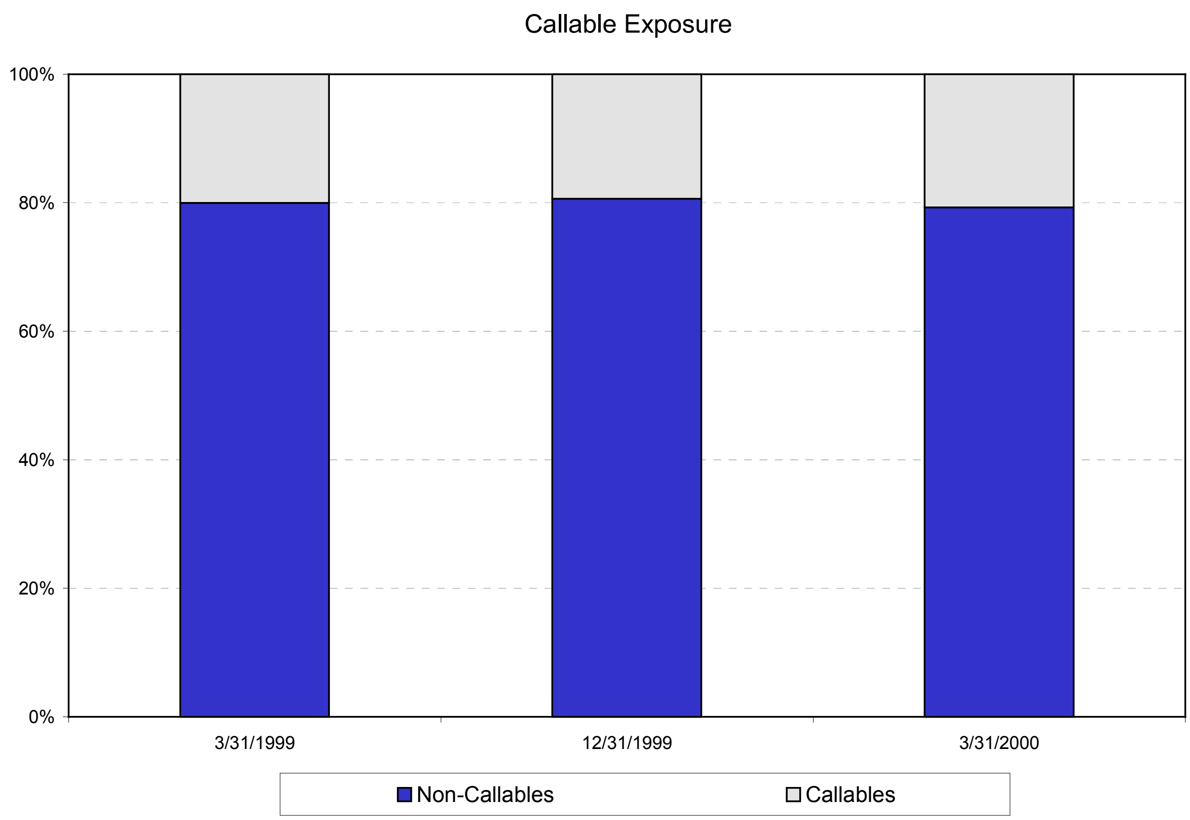


*Note change in methodology – report compares assets in the "Pool" portfolio only. The values for the prior periods have been revised to reflect this change in method.

Call Exposure

The portfolio's allocation to callable obligations remained virtually unchanged through the quarter. The pool held the same $75 million par in callable Federal Agencies both as of December 31 and as of March 31. The total portfolio value decreased modestly over the same period, leading to a minimal shift in the percentage allocation. The County continues to maintain an approximate 20% callable exposure in its portfolio.

The bar chart below depicts the total portfolio allocation to non-callables (the dark portion of the bars) as a percentage of the entire portfolio par value. The total exposure is shown for the first quarter, the prior quarter and as of March 31, 1999 to illustrate the consistent pattern over the past 12 months.

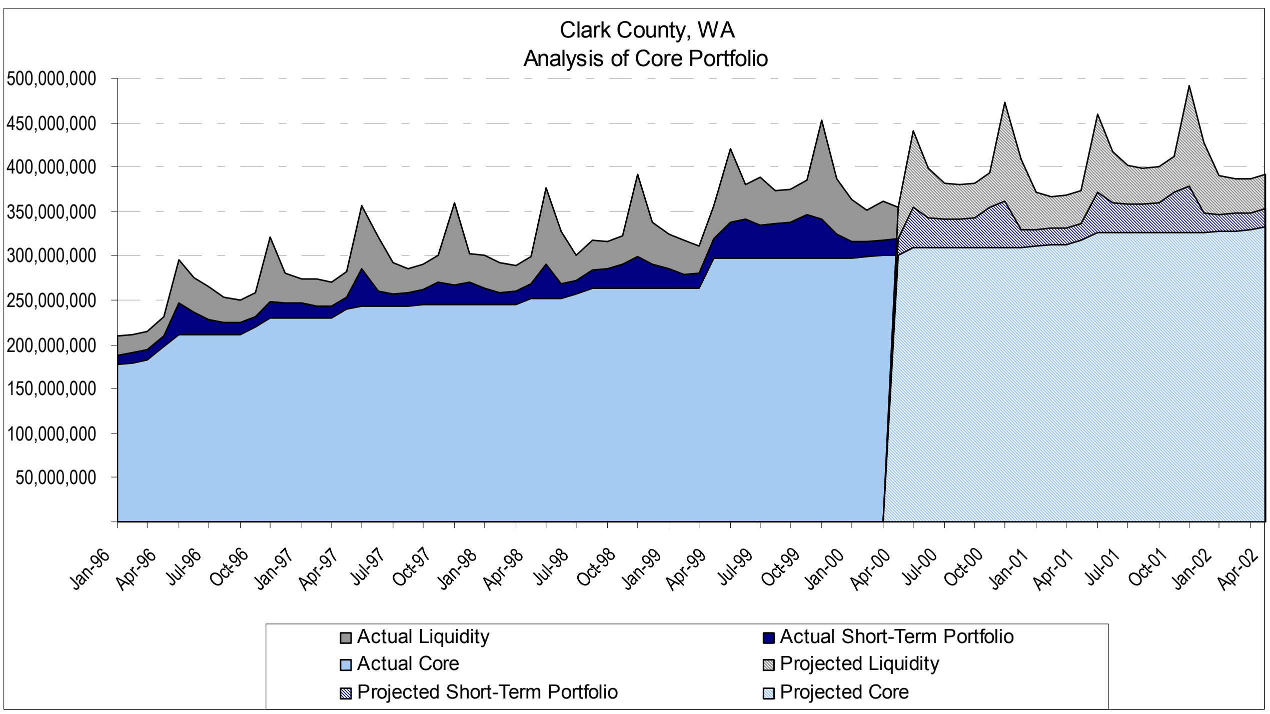


*Note change in methodology – report compares assets in the "Pool" portfolio only. The values for the prior periods have been revised to reflect this change in method.

PFM has developed a cash flow model to assist it clients in analyzing historical trends and seasonal fluctuations. The resulting analysis allows us to determine the optimal portfolio mix between short-term liquidity instruments (e.g., the LGIP and money market instruments) and longer-term securities (U.S. Treasury notes and Federal Agency notes). The model also helps to determine how much of the portfolio can be invested in longer-term securities to enhance yield.

We have used the model to analyze the change in the average balance of the Clark County Investment Pool from January 1996 to March 2000. The results are shown in the chart below. The data on the left side represents actual historical data. The data on the right side represents projected balances. Projections are based on historical seasonality[1] and a 5% annual growth rate.

The portfolio is allocated among the following three components: 1) Liquidity – representing funds needed to cover cash needs in the upcoming month. These funds are to be invested in very short-term money market instruments and the State LGIP. 2) Short-term portfolio – this includes funds set aside to provide liquidity for anticipated disbursements in two to six months and an added cushion should liquidity requirements suddenly increase. And 3) Core – this represents the portion of the portfolio that could be invested in longer-term obligations to achieve higher rates of return over the long run.

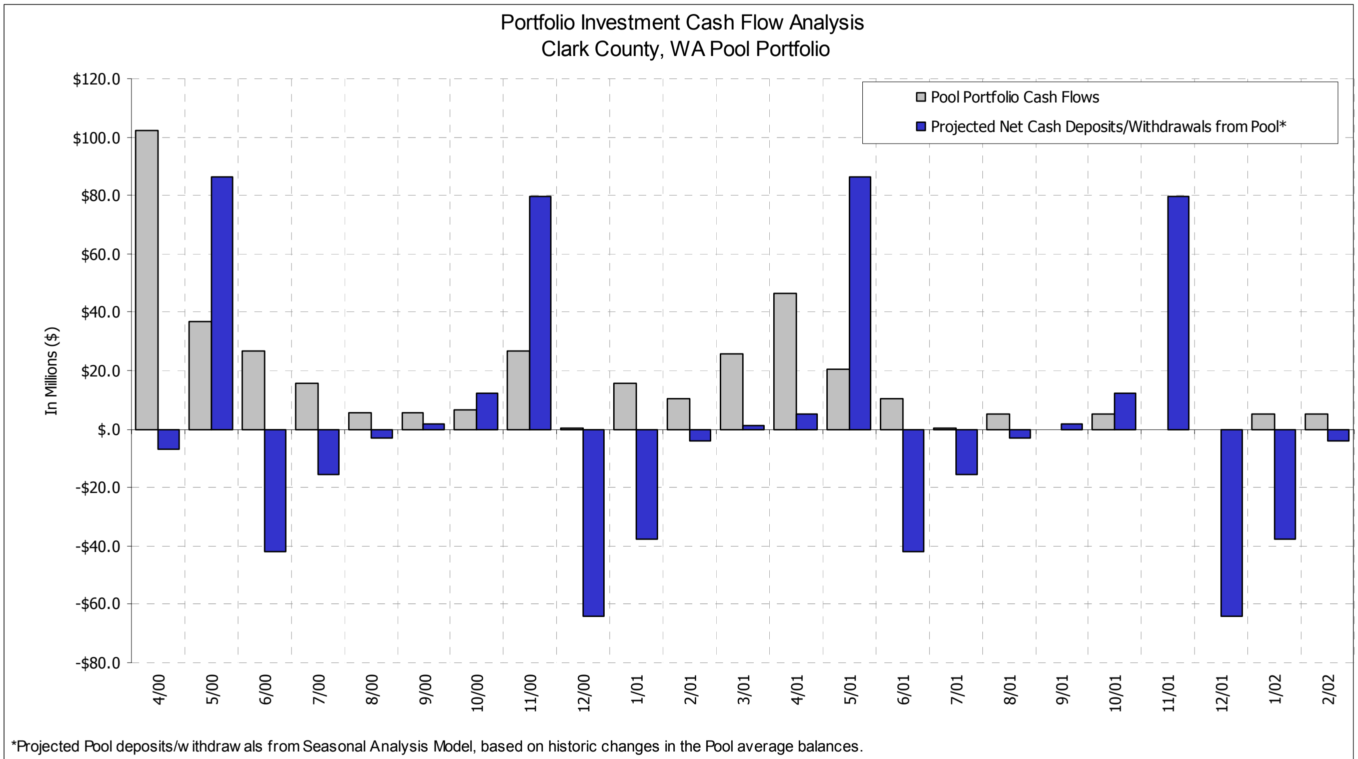


As reflected by the chart, the County's portfolio balance predictably reaches its peaks in May and November and its low points in March and September. The results of this analysis suggest that the portfolio will experience a net cash inflow during the second quarter. The results of this analysis have been used to develop an investment cash flow analysis discussion that follows.

[1] A predictable change in the monthly balance from year-to-year due to the timing of cash inflows and outflows.

Because of the continued shortening of the County's portfolio, the horizon analysis presented in prior reports is no longer of much value. The primary result of the horizon analysis is to stress-test the change in market values of investments from the beginning to the end of a period as interest rates change. The County's pool portfolio has a very short maturity, typically ranging from 9 to 10 months. In fact, the current portfolio average maturity is close to six months. A portfolio that has an average maturity of six months suggests that a substantial portion of the total assets mature each month. Therefore, during a 3-month horizon, a high percentage of the total assets turns to cash, requiring an additional set of assumptions regarding the reinvestment of that cash (how much cash is reinvested and for how long). Consequently, the horizon analysis has only limited value in analyzing the interest rate sensitivity of such a short portfolio, since the large cash balance skews the results.

In place of the horizon analysis, we have incorporated a monthly net cash flow analysis of the County's pool portfolio. The investment cash flow model calculates the total investment cash flows (coupon payments and maturities), creating a projected investment cash flow stream based on the securities in the portfolio. The pool investment cash flows have been aggregated on a monthly basis, and are depicted by the light gray bar lines in the chart. The cash flows are shown through the final maturity date in the portfolio, which occurs in February 2002.



*Projected Pool deposits/withdrawals from Seasonal Analysis Model, based on historic changes in the Pool average balances.
Reinvestment assumption of 6.0%, current Fed Funds rate.

We also incorporated into this analysis the projected monthly net cash deposits or withdrawals from the pool, plotting those as the dark bars in the graph. These deposit and withdrawal projections are based on the results of the seasonal analysis of the pool average monthly balances. The net cash flows are based on the change in the projected pool balance. For example, the seasonal analysis shows that the average pool balance decreases from the end of March to the end of April. Therefore, since the balance declines then a net cash withdrawal is predicted from the pool in April. The withdrawal is projected to be $7 million, based on the historical trends and the assumptions outlined for the seasonal analysis.

The overall results of the analysis show that over $100 million is due to mature from the portfolio in April, while only $7 million is forecast as being withdrawn. Therefore, the County will need to reinvest approximately $93 million[2]. Furthermore, the deposits are anticipated to far outweigh the withdraws for the month of May, based on seasonal trends, resulting in a projected net cash deposit of approximately $86 million for the month of May. Therefore, the County would not need to reinvest much of that $100 million in one-month maturities, but rather target months such as June and July, where the County pool experiences more withdrawals than deposits for the month and would need to offset that difference with investment cash flows.

Based on this analysis, its clear that the County has more than enough liquidity to meet projected cash flow needs over the next six months. This indicates that the portfolio is shorter than it needs to be and could be extended to enhance returns. In particular, the yield curve is very steep out to two years. We believe that there is good value in the one to two year area and recommend that the County use these securities to gradually extend the portfolio average maturity to within the 9-10 month range.

[2] The investment cash flows from the portfolio are the actual cash flows. On the other hand, the change in the cash position of the pool is a projection. Some degree of conservatism (+/- $5 million) should be employed when reviewing this data to account for the uncertainty of the exact amount of cash that will be withdrawn and deposited into the pool on any given month.

For the portion of the portfolio that is short, we have included the following table that focuses on the relative value of shorter-term investments between sectors. The table illustrates the current yield spreads and the 6-month average spreads of various short-term securities as compared to U.S. Treasury Bills in the same maturity range. The table also provides an evaluation and current outlook of our portfolio managers on the short-term market. Since the County needs to maintain a high degree of liquidity in its portfolio, this may serve as an additional reference for evaluating trade opportunities in the current market.

REVIEW OF INVESTMENT SECTORS

	Sector Spreads to U.S. Treasuries Bills									
	60-90 days		120-180 days		180-270 days		360-450 days		Current Evaluation	Recommendation & Outlook for Coming Week
Sector US Treasury Bills	4/24/00 5.64	6 mo. Avg	4/24/00 5.91	6 mo. Avg	4/24/00 6.02	6 mo. Avg	4/24/00 6.05	6 mo. Avg		
Agency Discount Notes	0.53%	0.44%	0.46%	0.40%	0.44%	0.40%	0.49%	0.40%	FAIR / HOLD or BUY	Sector reflects part of another 25 basis point Fed rate hike on 5/16.
Non-callable	0.53%	0.45%	0.47%	0.46%	0.45%	0.47%	0.54%	0.43%	CHEAP / HOLD or BUY	Spreads remain historically wide relative to US Treasuries
Callable (1yr/3month)							0.62%	0.52%	FAIR/ HOLD	Callable securities are somewhat cheap relative to bullets.
Bankers Acceptances	0.40%	0.42%	0.20%	0.38%					FAIR or EXPENSIVE / HOLD	Somewhat rich versus CP or CDs.
Commercial paper	0.64%	0.48%	0.56%	0.47%	0.53%	0.38%			FAIR/ HOLD or BUY	CP curve is fairly valued given expected rate hikes.
Negotiable CD's	0.61%	0.57%	0.56%	0.55%	0.62%	0.56%	0.71%	0.59%	CHEAP / HOLD or BUY	CDs offer good relative value greater than six months.
Repurchase Agreements (Term)	0.51%		0.48%						FAIR or EXPENSIVE / HOLD	Short-Term Repo is rich versus Agency discos

The next Federal Reserve meeting on interest rates is scheduled for May 16, after which many analysts expect another interest rate increase. We would suggest that the County wait to purchase money market securities until after that meeting, in order to capitalize on any move in short-term rates that may occur.

Generally, Federal Agency discount notes with 1-2 month maturities are currently expensive versus commercial paper and bankers acceptances. Once the Fed makes its decision on rates, we would suggest that the County invest in commercial paper, up to its permitted policy limit. Also, the County may want to purchase high-quality bankers acceptances if it finds any issues that yield at least 4 – 5 basis points higher than comparable Federal Agency discount notes.

Provided below is a summary of PFM's recommendations for the first quarter 2000.

- **Maintain allocation to Federal Agency obligations.** Yield spreads between U.S. Treasuries and Federal Agencies have widened dramatically across most of the short and intermediate yield curve. For this reason, we recommend that the County maintain a sector allocation target of 45% - 60% to the Federal Agency sector.

- **Consider increasing allocation to commercial paper and bankers acceptances after upcoming Federal Reserve Meeting.** Commercial paper and bankers acceptances currently are higher yielding than comparable money market investments. It is our recommendation that the County invest its short-term funds in commercial paper up to the maximum limit permitted by the County's policy. We would suggest that the County wait to execute the purchases until after the Federal Reserve meeting on May 16, to see where short-term rates are set. As described in last quarter's report, money market funds, such as the State LGIP, tend to lag the market. Therefore, as short-term rates continue to climb, we continue to recommend redirecting funds invested in the LGIP to short-term money market securities to continue to enhance returns.

- **Maintain portfolio average maturity within 9-10 months.** During the fourth quarter, the County continued to shortened the average maturity of the portfolio from 7 months to 6 months. Considering the current interest rate environment, we suggest that the County maintain the average maturity of the portfolio within the target range of 9-10 months by systematically reinvesting maturities out the yield curve. This strategy will allow the County to benefit from the higher interest rates offered by longer-term obligations and the increase in market value generated by the roll-down-the-curve effect. In addition, if rates were to begin to decline, the shorter average maturity would expose the County to some degree of reinvestment risk, as the cash from maturing securities would have to be reinvested in lower yielding securities.

- **Take advantage of steepness of the intermediate yield curve.** An analysis of the County's anticipated cash flow requirements suggests that the County will experience a large cash inflow in May. In addition, a large portion of the pool portfolio is close to maturity. We would suggest that the County target the 18-24 month maturity range when making some duration extension investments. The yield curve is particularly steep in that maturity range, providing the opportunity to lock in relatively competitive yields.

- **Maintain allocation to callables.** As of March 31, 2000, 21% of the County's portfolio was invested in callable Federal Agency securities. As noted, PFM believes this is an appropriate level of call exposure. However, we do not believe that yields currently offered by higher-coupon callables are compensatory for the added call risk. Therefore, PFM recommends that the County continue to replace callable securities that are called or that mature with either non-callable obligations or low-coupon callables, which should provide better call protection given their nominal interest rate.

- **Continue to avoid Japanese bankers' acceptances.** The Japanese Yen has recently rebounded against the U.S. Dollar and the Euro. A number of currency traders are speculating that the Bank of Japan may intervene to slow the Yen's surge. The strong Yen may negatively impact on the recovering Japanese manufacturing sector, as Japanese exports become more expensive. We continue to believe it will be some time before credit quality of Japanese financial products will be appropriate for public funds investment.

The sector and maturity composition recommendations below are based on our current market assessment and recommendations, the County's investment objectives and limitations imposed by the County's investment policy.

Investment Sector	Recommended Average Maturity	Current Average Maturity	Recommended % of Portfolio	Current % of Portfolio
U.S. Treasury Obligations	9 months - 1.0 years	0.90 Years	10% - 20%	12%
Federal Agency Notes/Discount Notes	6 month - 2.0 years	0.73 Years	45% - 60%	57%
Commerical Paper, Certificates of Deposit, Domestic Banker's Acceptances, State Pool	10 - 60 days	18 Days	20% - 40%	31%
Aggregate Average Maturity	**9-10 months**	**6.5 Months**		